

CONSUMERS GAS COMPANY

**ICC Docket 00-
Section 305**

General Information Requirements - a) Company Description

C. A. Robinson - President

Consumers Gas was incorporated in the State of Illinois on March 13, 1946. There have been no acquisitions since the Company was founded.

There are no inter-company relationships.

Included in this document is a map of Consumers territory showing all services areas, pipelines and Egyptian Gas Storage location. The document is marked Exhibit 305-a.3

CONSUMERS GAS COMPANY

**ICC Docket 00-
Section 285.305**

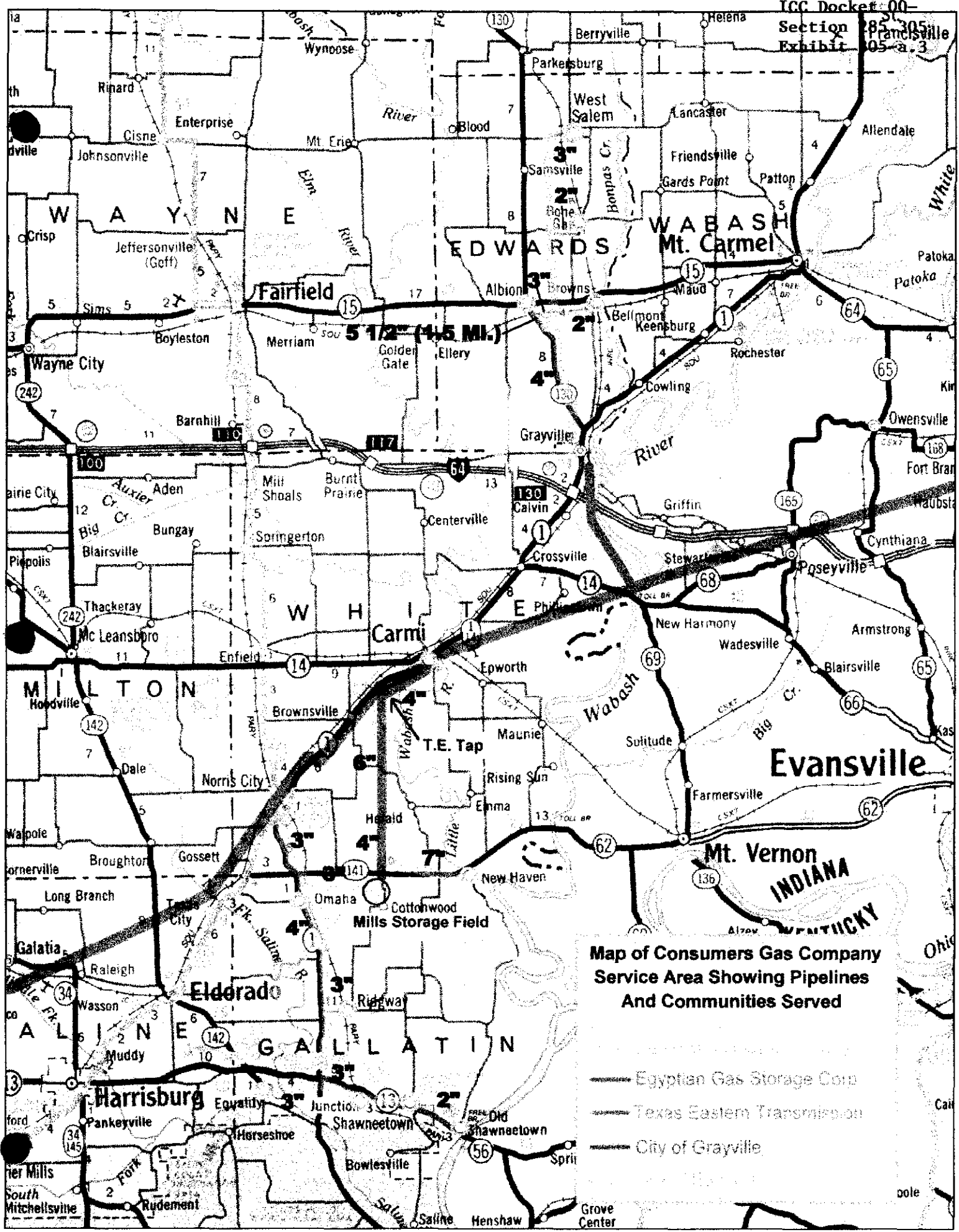
General Information Requirements - a) 3)

C. A. Robinson - President
812-477-9030

Attached is a map showing Consumers service area in Gallatin, White and Edwards Counties. Consumers services the cities and towns of:

Carmi, Albion, Brown, Ridgway, Omaha, West Salem
Bone Gap, New Haven, Junction, Shawneetown

The gas systems of Equality and New Shawneetown purchase their gas, at city gate, from Consumers.



CONSUMERS GAS COMPANY

**ICC Docket 00-
Section 285.305**

General Information Requirements - b) Most Recent Rate Case

C. A. Robinson - President
812-477-9030

Attached is a copy of the Commission's Order in Docket 92-0283.



ILLINOIS COMMERCE COMMISSION

April 23, 1993

Re: 92-0283

Dear Sir/Madam:

Enclosed is a certified copy of the Order entered by this Commission.

Sincerely,

Donna M. Caton

Donna M. Caton
Chief Clerk

Enc.

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

Consumers Gas Company	:	
	:	
Proposed general increase in	:	92-0283
natural gas rates.	:	

ORDER

TABLE OF CONTENTS

I.	PROCEDURAL HISTORY	1
II.	SERVICE AREA AND NATURE OF OPERATIONS	1
III.	PROPOSED INCREASE	1
IV.	TEST YEAR	2
V.	RATE BASE	2
VI.	OPERATING REVENUES AND EXPENSES	2
	A. Adjustments to Operating Expenses	3
	B. Adjustments to Revenues	3
	C. Docket Nos. 92-0253, 92-0254	4
	D. Summary	4
VII.	CAPITAL STRUCTURE AND RATE OF RETURN	4
	A. Capital Structure; Cost of Debt	4
	B. Cost of Equity	7
	1. Introduction	7
	2. DCF Analysis	7
	3. CAPM Analysis	8
	4. Conclusion	9
	C. Summary	9
VIII.	COST OF SERVICE AND RATE DESIGN	10
	A. Company Filing	10
	B. Staff COSS	10
	C. Rate Design	11
	D. Conclusion	12
IX.	FINDINGS	12
X.	ORDERING PARAGRAPHS	13

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Consumers Gas Company	:	
	:	92-0283
Proposed general increase in	:	
natural gas rates.	:	

ORDER

By the Commission:

I. PROCEDURAL HISTORY

On July 14, 1992, Consumers Gas Company ("Company", "Consumers" or "Respondent") filed its 12th Revised Sheet No. 1, 3d Revised Sheet No. 1.1 and 12th Revised Sheet No. 2, of its Ill. C.C. No. 4 ("Proposed Tariffs"). The Company therein proposes a general increase in natural gas rates. The Proposed Tariffs were suspended by the Commission, and were thereafter resuspended through June 10, 1993.

Pursuant to due notice, hearings were held before a duly authorized Hearing Examiner at the offices of the Commission in Springfield, Illinois, on various dates. Appearances were entered by the Company and the Commission Staff through their respective attorneys. No other appearances were entered and no intervening petitions were filed. At the conclusion of the hearing on December 18, 1992, the record was marked "Heard and Taken." A suggested order was jointly filed by Consumers and the Commission Staff on January 15, 1993. The Hearing Examiner's proposed order was served on the parties. No exceptions were filed. On March 29, 1993, a "Motion to Delete Flotation Cost Adjustment" was filed by Consumers and Staff.

II. SERVICE AREA AND NATURE OF OPERATIONS

Consumers is an Illinois corporation with principal offices at Carmi, Illinois, and local offices in Ridgeway and Albion. The Company provides gas service in portions of Edwards, White and Gallatin Counties. During the test year, Consumers served approximately 5,768 customers, counting the Shawneetown and Equality municipal systems as one customer each. Respondent's only pipeline supplier is the Texas Eastern Transmission Company. Respondent rents gas storage space from Energy Supply Consultants.

III. PROPOSED INCREASE

The proposed rates filed by Respondent were originally intended to increase annual revenues by approximately \$244,800, or 7.2 percent. The Company does not propose any changes in its existing rate structure and customer classifications.

adjustments, is shown on Schedule 1 of Respondent's Revised Exhibit GCH-1. Pro forma adjustments proposed by the Company are identified in Schedule 2 of Exhibit GCH-1 and Revised Exhibit GCH-1.

A. Adjustments to Operating Expenses

During the proceeding, Staff witnesses proposed a number of adjustments to the Company's operating statement. Adjustments to operating expenses were proposed by two witnesses from the Accounting Department. Staff witness Voss proposed a reduction of \$2,258 to payroll tax and employee fringe benefit expenses incurred by the Respondent in providing non-regulated service, the revenues for which are not included in the revenues used to compute the revenue requirement in this case. (Staff Ex. 1.11) Mr. Voss reduced depreciation expense by \$413 as a result of Staff's adjustments in the calculation of capitalized medical insurance and payroll costs. (Staff Ex. 1.10)

Mr. Voss increased medical insurance expense by \$11,286, resulting from a reduction of \$7,994 in capitalized medical insurance costs and from \$3,292 in medical insurance expense attributable to insuring the Company's President. Mr. Voss also adjusted expenses for state and federal income taxes resulting from Staff's Interest Synchronization adjustment. The Staff's Interest Synchronization adjustment was computed using the weighted cost of debt from the imputed capital structure proposed by Staff witness Jon Summerville. Both the Respondent and Mr. Voss proposed using a weighted cost of debt from a capital structure that excludes post 1970 investment tax credits.

Staff witness Theodore Mroczek of the Accounting Department proposed to reduce advertising expense by \$858 to reflect the amortization, over a three year period, of a one time, non-recurring advertising expense. (Staff Ex. 2.01) Mr. Mroczek also reduced Public Utility Tax by \$3,242 to correct a posting error in the Company's books.

B. Adjustments to Revenues

Adjustments to test year operating revenues were proposed by two Staff witnesses. Staff witness Eric Lounsberry of the Planning and Operations Department increased test-year revenues at present rates, which in turn reduces revenue requirement, by the amount of \$7,514. Mr. Lounsberry's adjustment results from his use of 30 years of weather data, instead of 20 years of data as utilized by the Company, in calculating "normal" year degree

92-0283

	<u>Amount</u>	<u>Ratio</u>
Long-Term Debt	\$1,255,000	66.17%
Preferred Equity	185,000	9.03
Common Equity	<u>507,628</u>	<u>24.79</u>
	<u>\$2,047,628</u>	<u>100.00%</u>

For purposes of this proceeding, Consumers presented an imputed capital structure that included a common equity ratio of 35%. The capital structure proposed by the Company is as follows:

	<u>Amount</u>	<u>Ratio</u>	<u>Cost</u>	<u>Weighted Cost</u>
Long-Term Debt	\$1,145,958	55.97%	10.29%	5.76%
Preferred Equity	185,000	9.03	6.00	0.54
Common Equity	507,628	24.79	12.85	3.19
Imputed Equity	<u>209,042</u>	<u>10.21</u>	12.85	<u>1.31</u>
	<u>\$2,047,628</u>	<u>100.00%</u>		<u>10.80%</u>

In order to reflect a reasonable mix of debt and equity, Staff witness Summerville recommended that an imputed capital structure be used to set rates in this proceeding. In determining a reasonable capital structure for Consumers, Mr. Summerville performed an analysis of the common equity ratios for the natural gas distribution industry. The witness reviewed data from Standard & Poor's ("S&P"). Utility Compustat II database and from the Value Line Investment Survey. At the end of the first quarter of 1992, the weighted average common equity ratio for the 41 market-traded gas distribution utilities in S & P's Utility Compustat II was 47.40%. (Staff Ex. 4.00, p. 6) The October 2, 1992 edition of the Value Line Investment Survey estimates that the common equity ratio for the 26 gas distribution utilities it follows was 47.30% in 1991, and will average 47.50% in 1992, 48.00% in 1993 and 48.50% over the period 1995 to 1997. (Id., p. 7) Of these 26 gas utilities, the lowest of the projected common equity ratios was 36.70% in 1991, and will average 36.00% in 1992, 37.50% in 1993 and 40.00% over the same period.

Mr. Summerville testified that S&P's risk-adjusted criteria, or benchmarks, for various types of domestic utilities are used in S&P's determination of a utility's bond rating and are published in Standard & Poor's Creditweek. The most recent S&P debt ratio benchmarks for 'BBB' (investment grade) and 'BB' (non-investment grade) gas distribution utilities are shown in ICC Staff Ex. 4.01.

B. Cost of Equity

1. Introduction

In determining the Company's cost of common equity, Staff witness Summerville used Discounted Cash Flow ("DCF") and risk premium models. Mr. Summerville's risk premium analysis specifically used the Capital Asset Pricing Model ("CAPM"). He applied these models to a group of public utilities found to be comparable in risk to Respondent based on a comparison of six operating and financial risk ratios. (Staff Ex. 4.00, pp. 11-12)

2. DCF Analysis

Mr. Summerville testified that a DCF analysis is a market-based approach for establishing a security's value. (Staff Ex. 4.00, pp. 12-13) The value of a security reflects all relevant risks the market associates with the security. The DCF model equates the value of a security to the present value of all its future cash flows. Specifically, the market value of a firm's common stock equals the aggregate value of its expected stream of future dividends, discounted at the investor-required rate of return. As a present-value model, the DCF model recognizes the time value of money. The underlying assumption is that each future cash flow (dividend) will be immediately reinvested at the firm's discount rate. Thus, the market price of a security will reflect this reinvestment assumption. (Id., pp. 12-13)

In his analysis, Mr. Summerville utilized a quarterly DCF model, which assumes that dividends will grow at a constant rate, in determining the cost of common equity for his comparable sample. The DCF model requires a growth rate that reflects the expectations of investors. Although the current market price reflects aggregate investor expectations, no method exists to directly measure the market consensus expected growth rate. He therefore used five year growth rates forecasted by securities analysts to estimate the investor expected growth rate. Specifically, Mr. Summerville examined projected growth rates in the September 17, 1992 edition of Institutional Broker's Estimate System ("IBES") and the September 16, 1992 edition of Zacks Investment System ("ZACKS").

For each firm in his comparable sample, Mr. Summerville developed a range of growth rate estimates based upon the highest and lowest forecasted growth rate for a future five year period. The highest and lowest growth rates were then used to calculate an estimate of the range of the required rate of return on common equity for each firm in his comparable sample. He further used each firm's closing market price on September 21, 1992, as

92-0283

Mr. Summerville used the Beta Coefficient ("Beta") in his CAPM analysis and estimated his Beta Coefficient for his analysis using two different methods. In one estimate, he used Betas published in the Value Line Investment Survey and the other estimate was developed by applying the Merrill Lynch Beta Calculation Method to data contained in Standard & Poor's Utility Compustat II Data Tapes. The average Beta Coefficient for his comparable sample was 0.692. Mr. Summerville's estimated cost of common equity for the comparable sample, using the CAPM, ranges from 11.58% to 13.06%.

4. Conclusion

Based upon his entire analysis, Mr. Summerville concluded that the cost of common equity for Respondent ranges from 12.30% to 13.10%, with a mid-point estimate of 12.70%. Staff and Respondent agree that 12.70% is the appropriate rate of return on Respondent's common equity. Staff initially proposed an additional adjustment to Consumers' cost of equity for flotation costs. Consumers and Staff have since moved to delete this adjustment. This motion should be granted. Accordingly, no adjustment for flotation costs is before the Commission in this docket.

The Commission finds that the risks associated with the firms in the Public Utility Firm comparable sample proposed by Staff are representative of the risks faced by Respondent. Both the risk premium results and the DCF results for the comparable sample were utilized in the final analysis. The cost of common equity for Respondent ranges from 12.30% to 13.10% and is believed to reflect the expected risks to Respondent. The mid-point of 12.70% represents Consumers' cost of common equity in this proceeding.

C. Summary

As shown in Staff Exhibit 4.16, the imputed capital structure presented by Staff produces an overall rate of return of 9.41% as follows:

	<u>Amount</u>	<u>Ratio</u>	<u>Cost</u>	<u>Weighted Cost</u>
Long-Term Debt	\$1,181,625	56.20%	7.88%	4.43%
Preferred Equity	185,000	8.80	6.00	0.53
Common Equity	562,500	26.75	12.70	3.40
Imputed Equity	<u>173,375</u>	<u>8.25</u>	12.70	<u>1.05</u>
	<u>\$2,102,500</u>	<u>100.00%</u>		<u>9.41%</u>

unacceptable bill impacts for individual classes. (Staff Ex. 5.00, p. 13) Specifically, Mr. Lazare recommends revenue allocations which move all rate classes 20 percent of the distance from an across-the-board increase towards equal class rates-of-return. He said that limiting movement to 20 percent insures that his revenue allocation proposal will mitigate bill impacts for ratepayers. (Id., p. 14)

C. Rate Design

In the Company's current rate design, separate tariffs are applicable for service to residential, commercial, industrial and transportation customer classes. Industrial and transportation tariffs are identical except that the PGA applies to the industrial tariff which consists of sales gas but not the transportation tariff which applies to customer-owned gas. Tariffs for all rate classes have a common structure consisting of a fixed monthly facility charge and a flat per Dth distribution (or commodity) charge on all throughput. (Staff Ex. 5.00, p. 17)

In its filing, the Company proposes large percentage increases in facilities charges for all rate classes. These proposals are as follows:

<u>Class</u>	<u>Present</u>	<u>Proposed</u>	<u>Increase</u>
Residential	\$5.28	\$7.50	\$2.22
Commercial	\$6.45	\$10.25	\$3.80
Ind./Trans.	\$13.60	\$39.85	\$26.25

The Company also proposes increases in distribution charges. These percentage increases are lower than those proposed for facilities charges. (Staff Ex. 5.00, p. 18)

In his testimony, Mr. Lazare recommends a more gradual increase in facilities charges than those proposed by the Company. While acknowledging that the Company's proposed increase in these charges are supportable on a cost-of-service basis, Mr. Lazare found the Company's proposals produce unacceptable rate impacts for small users on the system. Therefore, he proposes smaller increases resulting in customer charges of \$6.50 per month for the residential class, \$8.50 per month for the commercial class and \$27.20 per month for the industrial/transportation class.

- (6) a fair return on Respondent's original cost rate base is 9.41%, which reflects a 12.70% rate of return on the Company's common equity capital; rates should be set to allow the Company an opportunity to earn that rate of return on its original cost rate base, as determined herein;
- (7) the Company's present rates are not just and reasonable in that the operating income generated annually therefrom is insufficient to provide a fair rate of return to the Company; such rates should be permanently cancelled and annulled in accordance with this Order;
- (8) the tariff sheets initially filed by the Company in this proceeding contain rates which would produce a rate of return in excess of that which is just and reasonable; said tariff sheets should, therefore, be permanently cancelled and annulled;
- (9) Respondent should be permitted to file tariff sheets setting forth rates to produce annual operating revenues of approximately \$3,415,000 and net operating income of approximately \$213,000; said revenues will provide Respondent an opportunity to earn a rate of return of 9.41% on original cost rate base, and 12.70% on common equity; based on the record in this proceeding, these returns are fair and reasonable for Respondent;
- (10) the rates filed by the Company should be designed in accordance with the cost of service and rate design determinations made in the prefatory portion of this Order hereinabove, and Appendix C hereto; except as otherwise specified in this Order, the recommendations of the Commission Staff should be followed;
- (11) all motions and objections made in this proceeding which remain undisposed of should be considered disposed of in a manner consistent with the ultimate conclusions contained herein;
- (12) the conclusions reached and the findings of fact made in this Order are supported by the preponderance of the evidence in this proceeding.

X. ORDERING PARAGRAPHS

IT IS THEREFORE ORDERED that the tariff sheets containing rate schedules proposing a general increase in rates, filed by

CONSUMERS GAS COMPANY
Rate Base
For the Test Year Ending December 31, 1991

Line No	Description	Order Pro Forma
-----	-----	-----
	(A)	(B)
1	Plant in Service	
2	Transmission Plant	\$1,117,855
3	Distribution Plant	3,142,220
4	General Plant	594,202
5	Intangible Plant	5,603
6		
7		
8		-----
9	Total Plant	\$4,859,880
10		
11	Accumulated Depreciation	(2,784,121)
12		-----
13	Net Plant	\$2,075,759
14		
15		
16	Additions to Rate Base:	
17		
18	Materials and Supplies	21,285
19	Gas Stored Underground	156,800
20	Working Capital	
21	Gas Purchases	45,911
22	Operating & Maintenance Expense	107,792
23		
24		
25	Deductions from Rate Base:	
26	Accum Deferred Income Taxes	(147,582)
27		
28		
29		
30		
31		
32		
33		
34	Rounding	1
35		-----
36		
37	Rate Base	\$2,259,966
38		=====

Monthly Base Rate Charges

	<u>Customer Facility Charge</u> (per meter)	<u>Gas Delivery Charge</u> (per decatherm net)
<u>Rate 1</u> (Residential)	\$6.50	\$1.0612
<u>Rate 2</u> (Commercial)	\$8.50	\$1.1492
<u>Rate 3</u> (Firm Industrial)	\$27.20	\$0.8503
<u>Rider B</u> (Transportation)	same as companion classification	

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION
CERTIFICATE

Re: 92-0283

I, DONNA M. CATON, do hereby certify that I am Chief Clerk of the Illinois Commerce Commission of the State of Illinois and keeper of the records and seal of said Commission with respect to all matters except those governed by Chapters 18a and 18c of The Illinois Vehicle Code.

I further certify that the above and foregoing is a true, correct and complete copy of order made and entered of record by said Commission on April 21, 1993.

Given under my hand and seal of said Illinois Commerce Commission at Springfield, Illinois, on April 23, 1993.

Donna M. Caton
Chief Clerk

CONSUMERS GAS COMPANY

**ICC Docket 00-
Section 285.305**

General Information Requirement -

Most Recent Independent Auditor's Financial Review - c)

C.A. Robinson - President
812-477-9030

Attached is a copy of the Financial Statement prepared by Kemper CPA Group.

**CONSUMERS GAS COMPANY
EVANSVILLE, INDIANA**

**REVIEWED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998**

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1
BALANCE SHEET	2
STATEMENT OF INCOME AND RETAINED EARNINGS	3
STATEMENT OF CASH FLOWS	4
NOTES TO FINANCIAL STATEMENTS	5-10

kemper cpa group LLC
Certified Public Accountants and Consultants

To the Board of Directors
Consumers Gas Company
Evansville, Indiana

We have reviewed the accompanying balance sheets of Consumers Gas Company (a corporation) as of December 31, 1999 and 1998, and the related statements of income, retained earnings and cash flows for the year then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of Consumers Gas Company.

A review consists principally of inquiries of Company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

Kemper CPA Group LLC

CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

Lawrenceville, Illinois
March 3, 2000



CONSUMER GAS COMPANY
BALANCE SHEETS
DECEMBER 31,

ICC DOCKET 00-
Section 285-305 C

	1999	1998
ASSETS		
UTILITY PLANT (at original cost):		
Gas Plant	\$ 6,056,091	\$ 5,935,247
Less: Accumulated Depreciation	(3,915,628)	(3,729,634)
Utility Plant in Service	<u>2,140,463</u>	<u>2,205,613</u>
CURRENT ASSETS:		
Cash and equivalents	295,821	279,693
Accounts receivable (less allowance for doubtful accounts of \$73,508 and \$54,069)	551,018	548,742
Accrued utility revenue	34,360	26,685
Materials and supplies	24,590	23,218
Stored gas	341,326	315,041
Deferred income taxes	28,668	21,087
Prepayments	5,685	4,960
Total Current Assets	<u>1,281,468</u>	<u>1,219,426</u>
DEFERRED CHARGES		
Unamortized debt expense	10,395	12,999
TOTAL ASSETS	<u>\$ 3,432,326</u>	<u>\$ 3,438,038</u>
CAPITAL AND LIABILITIES		
CAPITALIZATION:		
Common stock (par value \$1 per share, 700,000 shares authorized, 125,000 shares issued and outstanding)	\$ 125,000	\$ 125,000
Premium on capital stock	287,186	287,186
Retained earnings	1,007,141	917,209
Total Common Equity	<u>1,419,327</u>	<u>1,329,395</u>
Preferred stock (6% cumulative, par value \$100 per share, 2000 shares authorized, 1825 shares issued and outstanding)	182,500	182,500
LONG-TERM DEBT, net of current maturities	0	785,000
TOTAL CAPITALIZATION	<u>1,601,827</u>	<u>2,296,895</u>
CURRENT LIABILITIES:		
Current maturities of long-term debt	0	120,000
Notes payable	1,101,000	384,000
Accounts payable	346,222	263,259
Taxes accrued	73,125	12,178
Interest payable	3,772	18,345
Refunds due customers	70,003	93,069
Other	1,700	18,043
Total Current Liabilities	<u>1,595,822</u>	<u>908,894</u>
DEFERRED CREDITS		
Deferred income tax	218,163	213,777
Deferred investment tax credits	16,515	18,473
Total Deferred Credits	<u>234,678</u>	<u>232,250</u>
TOTAL CAPITAL AND LIABILITIES	<u>\$ 3,432,327</u>	<u>\$ 3,438,039</u>

See accompanying notes and accountant's report.

CONSUMER GAS COMPANY
INCOME STATEMENTS
FOR THE YEARS ENDED DECEMBER 31,

ICC DOCKET 00-
Section 285-305 C

	<u>1999</u>	<u>1998</u>
OPERATING REVENUES:		
Gas operating revenues	\$ 3,985,042	\$ 3,775,783
OPERATING EXPENSES:		
Gas purchases	2,403,964	2,304,048
Other operations	471,914	483,565
Maintenance	361,285	328,362
Depreciation	192,790	188,561
Income Taxes	66,834	34,162
Taxes other than income	290,930	293,387
Total Operating Expenses	<u>3,787,717</u>	<u>3,632,085</u>
OPERATING INCOME	<u>197,325</u>	<u>143,698</u>
OTHER INCOME AND (DEDUCTIONS):		
Merchandising (net)	1,725	9,413
Other nonutility operations (net)	33,620	40,233
Total Other Income and (Deductions)	<u>35,345</u>	<u>49,646</u>
INCOME BEFORE INTEREST CHARGES	<u>232,670</u>	<u>193,344</u>
INTEREST CHARGES:		
Long-term debt	0	79,960
Short-term debt	95,948	22,920
Amortization of debt expense	2,604	2,604
Other	1,986	5,308
Total Interest Charges	<u>100,538</u>	<u>110,792</u>
NET INCOME	<u>\$ 132,132</u>	<u>\$ 82,552</u>

See accompanying notes and accountant's report.

CONSUMER GAS COMPANY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,

ICC DOCKET 00-
Section 285-305 C

	1999	1998
Cash flows from operating activities		
Net Income	\$ 132,132	\$ 82,552
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	195,394	191,165
Deferred income taxes	(3,195)	7,252
Investment tax credit	(1,958)	(2,047)
(Gain) loss on disposal of property	974	(14,213)
(Increase) decrease in accounts receivable	(9,951)	311,002
(Increase) decrease in prepaid expenses	(725)	7,357
(Increase) decrease in inventories	(27,657)	18,950
Increase (decrease) in accounts payable	82,963	(139,673)
Increase (decrease) in accrued liabilities	60,947	(59,360)
Increase (decrease) in interest payable	(14,573)	(4,352)
Increase (decrease) in refunds due customers	(23,066)	32,409
Increase (decrease) in other current liabilities	(16,343)	7,215
Total adjustments	242,810	355,705
Net cash provided (used) by operating activities	374,942	438,257
Cash flow from investing activities:		
Cash payments for the purchase of property	(128,614)	(188,967)
Cash proceeds from the sale of property	0	16,028
Net cash provided (used) by investing activities	(128,614)	(172,939)
Cash flow from financing activities:		
Net borrowings (repayments) on line of credit	(188,000)	1,000
Principal payments on long-term debt	0	(110,000)
Dividends paid	(42,200)	(42,200)
Net cash provided (used) by financing activities	(230,200)	(151,200)
Net increase (decrease) in cash and equivalents	16,128	114,118
Cash and equivalents, beginning of year	279,693	165,575
Cash and equivalents, end of year	\$ 295,821	\$ 279,693
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest expense	115,111	115,143
Income Tax	24,939	54,462

See accompanying notes and accountant's report.

CONSUMERS GAS COMPANY
STATEMENTS RETAINED EARNINGS
FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998

	<u>1999</u>	<u>1998</u>
RETAINED EARNINGS, beginning of year	\$ 917,209	\$ 876,857
NET INCOME	132,132	82,552
CASH DIVIDENDS:		
Preferred (6.00%)	(10,950)	(10,950)
Common (\$0.25 per share)	<u>(31,250)</u>	<u>(31,250)</u>
RETAINED EARNINGS, end of year	<u>\$ 1,007,141</u>	<u>\$ 917,209</u>

See accompanying notes and accountant's report.

CONSUMERS GAS COMPANY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998

ICC DOCKET 00-
Section 285-305 C

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

System of Accounts

The accounts of Consumers Gas Company are maintained in accordance with the system of accounts prescribed by the Illinois Commerce Commission.

Utility Plant and Depreciation

Utility plant is stated at cost. Cost includes direct labor, materials and allocable overheads. Utility plant is depreciated over its estimated useful life using the straight-line method. The cost of utility plant retired, replaced or renewed is removed from utility plant and charged to accumulated depreciation.

Cash and Equivalents

For purposes of the statement of cash flows, cash includes all cash on hand and checking accounts. The Company has no deposits or highly liquid debt instruments with original maturities of 3 months or less that are considered cash equivalents.

Accrued Utility Revenue

Consumers Gas Company bills customers on a cycle basis as meters are read and bills prepared. The Company estimates and records revenues not yet recognized for which service has been rendered and costs incurred.

Stored Gas

Stored gas is stated at cost as determined by the first-in, first-out method.

Material and Supplies

Inventories of material and supplies required for plant construction and maintenance are stated at the lower of cost determined by the first-in, first-out method or market.

Purchased Gas Adjustments (PGA)

Under the Company's PGA clause, increases or decreases in gas costs are passed on to its customers. The difference between actual costs incurred and costs recovered are included in refunds due customers.

Investment Tax Credits

Investment tax credits are deferred and included in income as a reduction of income tax expense over the estimated useful lives of the utility plant that gave rise to the credits.

CONSUMERS GAS COMPANY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998

ICC DOCKET 00-
Section 285-305 C

NOTE 2 - NATURE OF OPERATIONS, RISKS AND UNCERTAINTIES

Business Activity

The Company is an Illinois Public Utility Company regulated by the Illinois Commerce Commission. The Company provides natural gas and grants credit to residential, commercial and industrial customers located in Edwards, Gallatin and White Counties in Illinois.

Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Concentrations

The Company maintains cash balances at banks located in Edwards, Gallatin and White Counties in Illinois and Vanderburgh County in Indiana. The Federal Deposit Insurance Corporation up to \$100,000 insures accounts at each institution. Deposits exceeded depository insurance by approximately \$152,168 at December 31, 1999.

The Company acquires all natural gas from a single natural gas supplier and pipeline. An interruption of service from this supplier and pipeline could affect operating results.

NOTE 3 - UTILITY PLANT

The cost and useful lives of utility plant by functional classification as of December 31, follows:

	<u>Useful Life</u>	<u>1999</u>	<u>1998</u>
Gas Plant:			
Intangible	N/A	\$ 6,895	\$ 6,895
Transmission	33 years	1,116,565	1,116,565
Distribution	33 years	4,182,453	4,084,783
General	5 to 20 years	<u>750,178</u>	<u>727,004</u>
		6,056,091	5,935,247
Less: Accumulated Depreciation		<u>(3,915,628)</u>	<u>(3,729,634)</u>
Net Gas Plant		<u>\$ 2,140,463</u>	<u>\$ 2,205,613</u>

Depreciation charged to operations for the years ending December 31, 1999 and 1998 were \$192,790 and \$188,561, respectively.

CONSUMERS GAS COMPANY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998

ICC DOCKET 00-
Section 285-305 C

NOTE 4 - LONG-TERM DEBT

Following is a summary of long-term debt as of December 31:

	<u>1999</u>	<u>1998</u>
Note payable to Old National Bank, principal paid annually, interest paid quarterly at .25% above prime through March 2004, secured by all Company assets	\$ -0-	\$ 905,000
Less: Current maturities included in current liabilities	<u>-0-</u>	<u>(120,000)</u>
	<u>\$ -0-</u>	<u>\$ 785,000</u>

The Company converted the long-term debt to short-term during 1999 in a non-cash financing transaction. The long-term debt was extinguished by drawing on the line of credit expiring on May 27, 2000 described in Note 5.

NOTE 5 - NOTES PAYABLE

Following is a summary of notes payable as of December 31:

	<u>Expires</u>	<u>Available</u>	<u>1999 Outstanding</u>	<u>1998 Outstanding</u>
Lines of Credit:				
Old National Bank	5-27-00	\$ 1,500,000	\$ 905,000	\$ 100,000
Old National Bank	7-13-01	<u>294,000</u>	<u>100,000</u>	<u>284,000</u>
		<u>\$ 1,794,000</u>	<u>\$ 1,005,000</u>	<u>\$ 384,000</u>

The lines of credit are secured by all corporate assets and bear interest at prime.

NOTE 6 - LEASES

The Company leases office space under cancelable operating lease from a related company. The lease provides minimum annual rentals of \$7,800 through 2001.

CONSUMERS GAS COMPANY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998

ICC DOCKET 00-
Section 285-305 C

NOTE 7 - INCOME TAXES

Deferred income taxes arise from temporary differences resulting from income and expense items reported for financial accounting and tax purposes in different periods. Deferred taxes are classified as current or noncurrent, depending on the classification of the assets and liabilities to which they relate. Deferred taxes arising from temporary differences that are not related to an asset or liability are classified as current or noncurrent depending on the periods in which the temporary differences are expected to reverse.

Temporary differences giving rise to the deferred tax liability consist of excess depreciation for tax purposes over the amount for financial reporting purposes and deferred investment tax credits already utilized for tax purposes. The deferred tax asset results from the allowance for doubtful accounts.

The Company's effective income tax rate is lower than what would be expected if the federal statutory rate was applied to income from continuing operations primarily because of depreciation deductible for tax purposes that is not deductible for financial reporting purposes and investment tax credits utilized for tax purposes that are not utilized for financial reporting purposes.

The net deferred tax liability in the accompanying balance sheet included the following amounts of deferred tax assets and liabilities:

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
1999:			
Deferred tax asset	\$ 28,668	\$ -0-	\$ 28,668
Deferred tax liability	<u>-0-</u>	<u>(218,163)</u>	<u>(218,163)</u>
Net deferred tax liability	<u>\$ 28,668</u>	<u>\$ (218,163)</u>	<u>\$ (189,495)</u>
1998:			
Deferred tax asset	\$ 21,087	\$ -0-	\$ 21,087
Deferred tax liability	<u>-0-</u>	<u>(213,777)</u>	<u>(213,777)</u>
Net deferred tax liability	<u>\$ 21,087</u>	<u>\$ (213,777)</u>	<u>\$ (192,690)</u>

The components of income tax expense are as follows:

	<u>1999</u>	<u>1998</u>
Current	\$ 71,987	\$ 28,956
Deferred	(3,195)	7,252
Less: Investment tax credits adjustments	<u>(1,958)</u>	<u>(2,046)</u>
	<u>\$ 66,834</u>	<u>\$ 34,162</u>

NOTE 8 - PENSIONS

The Company maintains a qualified deferred compensation plan under section 401(k) of the Internal Revenue Code. Under the plan, substantially all employees may elect to defer up to 15% of their salary, subject to Internal Revenue Service limits. Contributions to the plan are at the discretion of management. Contributions for 1999 and 1998 were \$21,015 and \$18,277 respectively.

CONSUMERS GAS COMPANY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1998 AND 1997

ICC DOCKET 00-
Section 285-305 C

NOTE 9 - RELATED PARTY TRANSACTIONS

The Company leases office space under a cancelable operating lease as described in Note 6 from a related company. The Company also paid engineering fees of \$3,000 for 1998 to the same company. The companies are related through common shareholders. No amounts were payable for 1999 or 1998.

NOTE 10 - CREDIT RISK

Most of the Company's business activity is with customers located within Edwards, Gallatin and White Counties in Illinois. As of December 31, 1999 and 1998, the Company's receivables from residential, commercial and industrial customers located in these Illinois Counties were \$551,018 and \$548,742, respectively.

CONSUMERS GAS COMPANY

**ICC Docket 00-
Section 285.305**

General Information Requirements - d) Monthly Managerial Reports

C. A. Robinson - President
812-477-9030

Consumers Gas prepares an unaudited Income Statement each month and recaps its income and expenses in a Cash Flow/Budget spreadsheet.

Attached are copies of each month's Income Statement - January 1999 thru May 2000 - and copies of the Cash Flow/ Budget spreadsheet for year 1999 and current year of 2000.